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STAFF NOTES:

Latin American Trends

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LATIN AMERICAN TRENDS

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Argentina: Economic Problems

Worsening export prospects and difficulty in refinancing huge payments on the foreign debt triggered an increase in movements of short-term capital abroad during the first three months of 1975, threatening to engulf Argentina in its first balance of payments crisis since 1972.

Argentina may record a foreign trade deficit of more than $600 million this year despite the recent imposition of strict import controls and devaluation of the peso in March. Gross foreign exchange reserves fell from a peak of more than $2 billion last June to around $1.2 billion by the end of February. Since then, the decline has quickened and reserves have reportedly slipped another $400 million. This has triggered further tightening of controls in imports and capital movements, and a crackdown on black market exchange operations.

Export earnings are not expected to exceed $3 billion this year, compared with nearly $3.6 billion in 1974. Devaluation of the peso is helping to strengthen the competitive position of manufactured exports, but it will do little to improve the poor prospects for grain and meat exports. The value of grain exports will decline about 40 percent this year as a result of poor harvests and lower world grain prices. Neither is the depressed world beef market expected to improve appreciably this year. Meanwhile, the world recession is beginning to affect foreign sales of manufactures as well.

With the aid of tight controls and the recent devaluation, Argentina probably will be able to keep imports near last year's level of $2.9 billion. Officials have already placed a total ban on imports. Even when the temporary ban is lifted, Buenos Aires will probably limit imports to a few essentials. These restrictions

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will also need to be relaxed as time passes, if adequate supplies for industries and agriculture are to be restored and a serious falloff in output averted.

Argentina's principal payments constraint is its foreign debt. Debt service obligations of the public sector amount to some $1.4 billion this year and private obligations $1.8 billion. Buenos Aires is having increasing difficulty postponing these payments. The government is negotiating a $500 million credit from a banking consortium led by First National City Bank, but negotiations for $600 million in credits from Venezuela are lagging. Buenos Aires is also attempting to raise cash by selling some $600 million in commercial obligations emanating from its bilateral credit to Cuba in 1973 and is seeking additional credits from international lending institutions. Even if it succeeds in these efforts, Argentina may still be forced to seek emergency standby credits from the International Monetary Fund.

Because of the deteriorating payments position, Argentina faces stagnating or even declining production during the latter part of this year. Increasing unemployment and losses in real incomes would bring increasing political problems to Mrs. Peron's already shaky government and could trigger a major crisis by yearend as labor becomes more demanding, growth falters, and consumers despair. (SECRET/NO FOREIGN DISSEM)

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Argentina: Balance of Payments

Million US $

	1972	1973	1974 1/	1975 2/
Exports, f.o.b.	1,941	3,266	3,553	3,000
Imports, c.i.f.	1,905	2,235	2,882	2,900
Trade balance	+36	+1,031	+671	+100
Net Services	-259	-315	-323	+-300
Current account	-223	+716	+348	-200
Capital account	+51	-45	-310	-400 3/
Private (net)	71	82	-110	-150
Public (net)	-65	-85	-150	-200
Banks (net)	45	-42	-50	-50
Change in reserves	-172	+671	+38	-600

1. Preliminary.
2. Projected.
3. Assumes capital inflows of $2.3 billion and outflows of $2.7 billion including $1.2 billion public and $1.5 billion private debt amortization.

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Ecuador: Souring on the Andean Pact

The Ecuadorean Government is becoming increasingly doubtful of the advantages to it of membership in the Andean Pact. Ecuador has long sought, so far without success, to be assigned the petrochemical complex and several of the automotive parts plants to serve the region. According to the undersecretary of the Ministry of Commerce and Industry, Eduardo Calderon Zambrano, Ecuador envisions the Pact as a means not only of establishing a regional free trade zone, but also of promoting industrialization.

Ecuador holds that its role as an oil exporter leads reasonably to a role in the petrochemical industry and, by extension, to a role in the automotive industry as well. Venezuela, a much larger oil producer and now a member of the Pact, already participates in the petrochemical and automotive industries. Undersecretary Calderon has suggested strongly that without these two new assignments there would no longer be any reason for Ecuador to remain in the Andean Pact.

It may be no exaggeration to state that this is the Pact's most serious crisis to date, as the Quito daily El Comercio writes. Ecuador and Bolivia are the two countries with most to gain from membership in the group and the loss of either would be a psychological blow to the Pact, as well as the loss of a market. Flushed with what they deem great oil riches, and strangely oblivious to the limitations of that resource, many Ecuadorean policy makers may well see little reason to dally in an Andean Pact that does not play by Quito's rules. (CONFIDENTIAL/NO FOREIGN DISSEM)

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Ecuador: Oil Earnings Slacken

Many of the plans Ecuador had made for economic development based on its expectations of high oil revenues may not be realized because of production problems and limited reserves. Even if Quito can resolve these problems and fully restore production, oil revenues will still not be adequate to offset development spending.

Ecuador is currently following a conservationist oil policy. A production ceiling of 210,000 barrels a day was set when estimates of proven oil reserves were revised downward from 5 billion barrels to 2.5 billion barrels last year. Output has been well below the ceiling, however, because of production interruptions and, until recently, the government's failure to market all of its 25-percent share of liftings.

Last year, interruptions cost Ecuador over $100 million in export earnings. A break in the trans-Andean pipeline halted exports in July and price disputes with producing companies resulted in further disruption during the last quarter of 1974. Exports were halted again this March by another pipeline break, which reduced exports by about $50 million.

The government plans to use its oil revenues to diversify industry and agriculture. Quito intends to develop both import substitution industries and export industries. Agricultural production is to expand to decrease dependence on imported foodstuffs. Quito also plans to build a $90-million refinery to process its crude oil. While many of these projects are in the design and development stage, some are scheduled to get under way this year.

Rising imports and lack of new oil reserves, however, may lead to increasing balance-of-payments difficulties. Quito opposes lowering oil prices and feels

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that larger producers in OPEC should absorb production cuts in order to keep world crude prices high. In 1974, Ecuador's export earnings increased by 57 percent to over $830 million, while imports increased to $600 million. The trade surplus more than offset services and capital account outflows, allowing foreign exchange reserves to increase by over $100 million.

This year the trade surplus will be cut at least in half. With maximum allowable crude production during the remainder of this year, total exports would probably increase about 20 percent to $1 billion, with export earnings from oil rising by 25 percent to about $700 million. Non-oil exports, primarily bananas and some coffee, cocoa, sugar, and fish products, are unlikely to increase because of lack of incentives.

Imports will probably increase 50 percent again this year, spurred by development programs and rising consumer demand. Imports combined with increased service and payments will thus produce a current account deficit that may force a delay in development plans. (CONFIDENTIAL)

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Peru: SINAMOS Nearing its End

The reorganization of the government's National System of Support for Social Mobilization (SINAMOS) may well be the first step in its absorption into a new political movement, but few tears are likely to be shed over the probable demise of this pervasive government organization. Late last month, the government announced that SINAMOS was being reorganized to carry out its goals better. Despite government double-talk that SINAMOS had already achieved most of what it set out to do and was therefore ready to enter a second phase, this vast bureaucracy has done little to mobilize popular support for the country's military regime.

SINAMOS was created by decree three years ago as a vehicle for "consolidating, promoting, and coordinating the basic organizations of the people" from the "highest level of the revolutionary government to the local level." The organization has been embroiled in controversy ever since. With such a broad, nebulous mandate--and a bureaucracy to match--SINAMOS officials have often seemed to be working at cross-purposes.

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The SINAMOS bureaucracy has attracted a wide variety of leftists, including radical supporters of President Velasco, members of the pro-Soviet Communist Party of Peru (PCP), and ex-guerrilla leader Hector Bejar. Many of these leftists gravitated to SINAMOS at the military's behest, perhaps as a means of keeping them in check and channelling their energies into potentially pro-government activities.

This leftist influence in SINAMOS, however, has concerned the government. President Velasco and most other top officials do not want the regime to take on the image of being in cahoots with the Communists, and have studiously sought to avoid activity that would give this appearance. This fear has hampered SINAMOS' overall effectiveness, since the government has focused on maintaining the revolutionary purity of the organization rather than on building a framework in which it could implement its goals.

The conflict between government "revolutionaries" and doctrinaire Communists has led to interesting public debates, such as occurred last August between the head of the PCP and Carlos Delgado, the civilian sub-director of SINAMOS who is a pro-Velasco radical and outspokenly critical of the Communists.

Such publicity, however, only serves to increase the suspicions of various peasant and labor groups, which view SINAMOS as simply another military tool to control their livelihood and behavior. SINAMOS' highly publicized activities and frequent exhortations for civilians to rally behind the armed forces have generally met a cool, and sometimes hostile, reception.

From the beginning, government ministries resisted efforts to have SINAMOS take over reform and organizational activities which they felt were within their bailiwicks. This bureaucratic tug-of-war apparently has been won by the ministries.

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Under the new reorganization, SINAMOS may, according to the US Embassy, become a "Tammany Hall" for the government's Political Organization of the Peruvian Revolution (OPRP), which is just now being set up. The government appears serious about implementing this new political movement (see Latin American Trends of February 26), but it probably could not work effectively with SINAMOS. Each hierarchy would have its own groups of power-seeking bureaucrats and hangers-on, which would try to dominate the others.

It may be that SINAMOS will exist under one name or another for a short time as a transition mechanism, and that it will eventually be absorbed into the new political movement. Thus a second-generation mass-support organization will be born. At this point, the chances that OPRP will achieve significant success--measured by the populace's increased fondness for the military--are slim, especially if the new structure is organized along military lines and staffed mainly by career officers as SINAMOS has been. (CONFIDENTIAL)

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Cuba and Guyana Develop Closer Ties

The Cubans pulled out all the stops last month to provide special treatment to Guyana's Prime Minister Forbes Burnham. Fidel Castro, frequently accompanied by his brother Raul, personally escorted Burnham on his tour of Cuba.

The Cuban hospitality--combined with recent visits to the Peoples Republic of China and Romania --seems to have reinforced Burnham's view of the relevance for Guyana of an authoritarian socialist model. Burnham stated publicly last week that: "In their socialist construction /these/ three countries held the lesson that planning was absolutely necessary; discipline was absolutely necessary; people must be involved through an understanding and not through being ordered, goals must be ruthlessly pursued; and there must be the paramountcy of the party over the government."

The Cubans did not hesitate to take advantage of the good will they have built up. In response to an invitation from Burnham, a man we have identified as Armando Ulises Estrada Fernandez--who is an intelligence officer with a long history of involvement in Cuban efforts at subversion in Africa and the Middle East--accompanied the Guyanese delegation upon its return to Georgetown. He will reportedly undertake a review of the organization of Burnham's People's National Congress with a view to helping strengthen its framework. The Cubans already have a fishing fleet in Guyana, and plan to establish a resident diplomatic mission there in June, which will allow them a larger presence and a vehicle for helping Burnham extend his political control through the creation of mass organizations.

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The Castro regime probably also gave Burnham the red carpet treatment because of its desire to develop Guyana as a close ally--in the Third World and non-aligned activities--as part of a Cuban attempt to form a Latin American/Caribbean block in multinational forums.

The discussions with Burnham ranged over a number of subjects related to the nonaligned movement and to Cuba's efforts to create a Latin America independent of the US. The talks emphasized Cuba's desire that the nonaligned countries exert increased pressure on the oil producers to invest more of their earnings in the developing countries. Cuba's continued concern over this issue suggests that no such program was developed during the meeting of the Coordinating Bureau of the Nonaligned Movement held in Havana in March.

The Cubans reportedly expressed hope that the Latin American Economic System (SELA) would become a political, not just an economic organization. The Cubans claimed that the Mexicans had proposed that SELA serve as a substitute for the OAS but did not intend to promote the proposal openly. The Mexicans favored a universal membership in SELA, whereas Castro preferred to exclude "reactionary governments"but admitted it would be difficult to avoid inviting all countries to join.

Burnham's trip also stimulated commercial relations. Guyana will send timber and 10,000 tons of rice to Cuba and will receive continuing supplies of Cuban cement.

Castro underlined his satisfaction with Burnham's increasingly leftist posture by accepting an invitation to visit Guyana in the near future. It has been only 19 months since Castro's last visit. (SECRET/NO FOREIGN DISSEM/NO DISSEM ABROAD/CONTROLLED DISSEM/BACKGROUND USE ONLY) 25X1A

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Nicaragua: A Softer Line

President Anastasio Somoza is examining his government's foreign and domestic policies and may be in the process of returning to some of the more pragmatic, albeit still conservative, approaches that marked his older brother's and his own earlier terms as chief executive. Since 1972 the general has often seemed bent upon emulating his father, who ruled the country with an iron grip from the 1930s until his assassination in 1956.

Foreign Policy. Without publicity a North Korean delegation spent three days in Nicaragua during April --the first such contact between the two countries. A Nicaraguan Foreign Ministry official, who received the Asians discreetly, subsequently explained that the visit did not signify any movement toward diplomatic recognition. Rather, Nicaragua was seeking new customers regardless of their ideology provided the price was right.

At the beginning of the Cold War, Nicaragua broke relations with all the Communist countries except Poland. Likewise, Nicaraguan law prevented all but an insignificant amount of trade with the Communist world. With the prospect of selling a portion of Nicaragua's cotton crop to the People's Republic of China and with a small but growing market in eastern Europe, Somoza quietly rescinded the trade embargo in March 1974. By the end of the year, China was second only to Japan as a purchaser of Nicaraguan cotton, and the eastern European countries were preparing to purchase possibly 20 percent of the cotton available for export in 1975.

Finding fewer and fewer rightist military governments with which to identify, discovering limited detente to be profitable, and probably uneasy over US withdrawals from Southeast Asia, Somoza has likely authorized Foreign Ministry officials to explore the possibilities of broadening Nicaragua's options.

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The cocktail circuit in Managua is alive with rumors that Somoza is considering stationing an ambassador in Warsaw and renewing trade relations with Cuba once OAS sanctions are lifted. Expanded representation in eastern Europe to facilitate trade makes considerable sense, but renewed relations with Cuba is quite another matter.

Even discounting the very limited trade benefits that might accrue to either country, the enmity between Somoza and Castro is so personal, pervasive, and long-standing that it would make even a limited rapprochement difficult. Somoza believes that Castro has aided and abetted two dozen interventions in Nicaragua, including the guerrilla raid during the 1974 Christmas holidays that cost the lives of four Nicaraguans and forced the general to humble himself in ransoming his brother-in-law, the foreign minister, and a number of other prominent Managuan personalities. Castro identifies Somoza as the leader of one of the most reactionary regimes in the Western Hemisphere and may still be intent on taking revenge on the Somozas for their role in the Bay of Pigs invasion.

Domestic Policy. Somoza seems to be trying--not very effectively--to reduce the level of confrontation in domestic affairs.

Shortly after the earthquake that razed Managua in 1972, labor--for the first time in Nicaraguan history--discovered that it could strike effectively, forcing both private employers and the government to grant higher wages and improve working conditions. Somoza repeatedly overreacted to labor's new militancy, only to have to back down eventually. A prolonged hospital workers' walkout during 1974 nearly deteriorated into the nation's first general strike.

Apparently heeding the advice of the new labor minister and other officials installed last December, Somoza has made his first move to reach a reconciliation

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with the workers. During April the government announced minimum wage increases ranging from 7 to 23 percent. Workers in Managua and its environs received the largest boosts.

The increases are largely cosmetic. Workers in the capital already receive more than the minimum rates and therefore will gain little or nothing. Government statistics show that almost half the labor force in areas outside the federal district consistently receives less than the legal minimums. Even if enforcement improved spectacularly, a farm laborer in Matagalpa department could expect an increment of $.68, giving him $9.94 for a 48-hour work week.

Labor demonstrated its continuing disenchantment with Somoza at an officially sponsored rally on Labor Day. Despite free transportation, the obligatory attendance of government employees, and other measures to ensure a large crowd, probably only a third of those expected turned out. US officials in Managua reported that Somoza drew ovations of eight seconds when he was introduced and when he finished his 25-minute speech. (CONFIDENTIAL)

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